

**Testimony of Mr. John Ezzo
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Effect of Sales Tax on Services on the Building Services Industry in Michigan

During the last several fiscal years, with the state facing budget deficit after budget deficit, the response all too often has been to increase fees and taxes to business and consumers with little or no in-depth look at the real problem of tax policy and spending.

Some believe that there is revenue capacity out there, and all that is lacking is the political will to raise taxes. Consequently, some special interest groups and lawmakers have suggested one way to increase revenue is to expand the states sales tax to services.

As with any tax increase many factors must be weighed, how much revenue will be raised, how will the tax be collected and remitted to the state and what is the economic objective of the proposed tax policy?

Many economists would argue, more revenue would be raised, more jobs would be created and more economic opportunity would be created if taxes on the service sector were reduced.

More specifically, expanding the state sales tax to services would contribute to economic inefficiency and would result in lost employment opportunities for women and minorities the main component of the building services work force in the state of Michigan.

Because it would be a tax on a service purchased by business in all lines of production, it would pyramid upward as an additional cost of doing business and would result in higher prices and or lower returns to labor and capitol.

Moreover, as a growing body of evidence shows, such taxes are extremely costly to administer relative to the modest revenues they generate.

And, where taxes are already levied on building services contractors, which are highly, labor intensive through the Single Business Tax (SBT), it would amount to double taxation.

In conclusion, expanding the sales tax on services to include the building services industry would trigger massive layoffs that would result in increased numbers of unemployed draining more state revenue from the system. It would smother the economic opportunities currently available in the service industry to small business and those will low level workforce skills.